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**Commerce Capital**



Trust and Mortgage Companies  
Annual Report 1977



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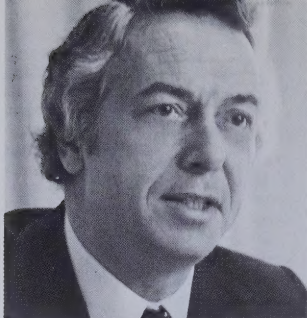




## Commerce Capital Corporation Limited

### Highlights

	1977	1976
Total Income	\$ 64,591,000	\$ 58,584,000
Net Earnings Per share	\$ 2,013,000 81¢	\$ 1,857,000 67¢
Total Assets	\$446,470,000	\$390,428,000
Shareholders' Equity Per share	\$ 11,639,000 \$4.81	\$ 10,556,000 \$4.19
Number of Shares Outstanding Weighted average	2,493,758	2,760,158
At year-end	2,419,905	2,516,870



## President's Report

In 1977 Commerce Capital's earnings continued to grow at a healthy rate for the seventh consecutive year. Earnings before extraordinary items amounted to \$2,013,000 compared to \$1,857,000 the previous year. After taking into account a decrease in the average number of shares outstanding, this represented 81 cents per share compared to 67 cents in 1976 — an improvement of 21%. Total assets expanded from \$390 million at the beginning of the year to \$446 million at year end. This growth was largely the result of an increase of \$51 million in our mortgage holdings, reflecting financing on over 3,000 housing units and various other types of properties. Shareholders' equity increased by \$1,083,000 from \$10,556,000 to \$11,639,000, consisting of a \$1,665,000 increase in retained earnings and a \$582,000 decrease resulting from our acquisition in December of 96,965 of our own shares. On a per share basis shareholders' equity went up from \$4.19 to \$4.81.

Our performance in 1977 took place in an economic climate which could not be described as conducive to business growth. Real gross national product expanded by a disappointing 2.6%, well below the growth rate required for even reasonably prosperous conditions. Unemployment continued to worsen throughout the year and by December reached 8.4%, the highest level since the 1930's. Inflation, which we had hoped early in the year was being brought under control, increased during the last half and by December reached a 9.5% rate, far above the Anti-Inflation Board's target of 6%. Reflecting these problems, the Canadian dollar declined on world markets from above \$1.03 U.S. to the 90 cents U.S. level. To add to these economic difficulties, Canada's political uncertainties persisted, with the problems related to national unity multiplying.

For Commerce Capital, this uncertain economic and political climate meant a slowing down in the demand for mortgage financing and reduced mortgage yields. It also meant higher mortgage arrears and defaults and the consequent necessity of greater reserves. When these problems were aggravated by escalating overheads resulting from higher inflation, we understandably experienced difficulty in maintaining the magnitude of earnings gains we had enjoyed in the past few years.

### Strengthening Our Organization

During 1977 we continued to carry out our plans of corporate integration introduced two years ago. This meant further consolidation of senior executive functions in our new executive office in Toronto. It also meant moving out of certain operating areas. In November, we announced the sale of our interest in Garden City Square Shoppers Mall in Winnipeg and several shopping centre land positions, in accordance with our policy of reducing our investment in properties. In addition, during the latter part of the year we wound down our factoring operations and are no longer active in that business. The decision to phase out of these operations was not due to any disappointment in their results, but to enable us to devote more of our efforts to the development of our trust and loan activities.

In line with our general expansion programme, we plan to open several new branches in Ontario this year — full service branches in Hamilton and Oshawa and mortgage branches in London, Kingston and Orillia.

### Developing Other Trust Services

Our trust and loan activities have been heavily concentrated in the financial intermediary sector, principally the mortgage business. We believe we are now at the stage in our development when we should diversify by gradually expanding other types of trust services. This must be done on a selective basis and we will be devoting considerable time over the next year to working out our priorities in this regard. The two areas which now look the most promising are mortgage banking and funds management.

### Dividends

In accordance with the limitations imposed on us by the Federal Government's Anti-Inflation guidelines, we were only able to increase our dividends paid in 1977 to 14 ¢ per share from 12 ¢ in 1976. In March of this year the Board of Directors declared an increased quarterly dividend of 5 ¢ per share payable March 31, 1978 to shareholders of record March 17, 1978.

### Changes in Directors and Senior Officers

In March, 1977 Mr. James Addison joined the Board of Directors and in November, Mr. Wallace McCain



was appointed a director to fill the vacancy created by the resignation of Mr. Maurice Strong.

In March, 1978 we made certain senior executive appointments. Mr. J. W. Leech was appointed Senior Vice-President, Operations; Mr. L. R. Lunn, Senior Vice-President, Funds Management and Corporate Development; and Mr. C. J. Cann, Senior Vice-President, Mortgages.

### **Commerce Capital People**

Commerce Capital would not be successful without the dedication and hard work of its staff. Many of our employees have daily contact with the public while others work behind the scenes at various tasks, all essential to the efficient functioning of our operations. This year's Annual Report features Commerce Capital people.

### **Legislation**

In its review of the Bank Act in 1977 the Senate Banking Committee concurred with the trust industry's recommendation that trust companies not be required to maintain non-interest bearing reserves with the Bank of Canada as a prerequisite to joining the Canadian Payments Association. We expect that this recommendation will be accepted when the Bank Act is finally revised, now expected sometime in late 1978 or 1979. In the meantime, we are taking steps to prepare for entry into the Canadian payments system which we expect will become operative in 1979.

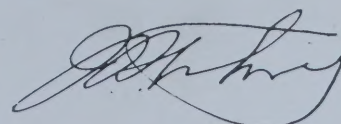
The Borrowers and Depositors Protection Act was designed to protect debtors from the illegal practices of loan sharking. Although the trust industry fully supported the good intentions of this bill, we felt that it went too far in unduly restricting the rights and activities of regulated financial institutions. In July the Senate Banking Committee recommended that the bill be withdrawn and that a consultative process with all interested parties be commenced with a view to a full redrafting. The Government did withdraw the bill and according to our understanding, has prepared a new draft to be released shortly. It is our intention to participate actively through the Trust Companies Association of Canada to ensure that this legislation is relevant and beneficial to the interests of the Canadian public.

During 1977 the Trust Companies Act of Alberta was amended to give companies greater powers in the areas of leasing and consumer lending. We participated with the Association of Alberta Trust Companies in presenting a submission to the Alberta Government concerning these amendments. In the latter part of the year, the Trust Companies Association of Canada presented the Federal Government with a "Submission on the Revision of the Federal Trust and Loan Companies Act". This submission included recommendations to increase the powers of companies in the areas of leasing, issuance of life annuity contracts and consumer and business lending. We do not expect these recommendations will be adopted until the Bank Act revision is completed. These legislative changes and recommendations suggest some of the future directions of the trust company industry.

### **Outlook**

We expect that Canada's economic performance will be modestly improved in 1978 but still well below potential. High rates of inflation and unemployment, together with political uncertainty, will continue to undermine consumer and corporate confidence. With respect to residential housing construction, the outlook is not bright. A large inventory of unsold units remains, particularly condominiums in Ontario and British Columbia, and it is difficult to see anything but a further decline in housing starts in the coming year.

We intend to place more emphasis on financing houses in the resale market and with our strong position in the expanding Alberta market, we expect to achieve our growth targets for mortgage production in 1978. Improvements in our corporate organization will mean further operating efficiencies. Also, we expect expansion in income from the other trust services being developed. All of this means that 1978 should be another year of growing assets and higher earnings.



J. B. Whitely

Toronto, March 15, 1978

## Financial Review

### Earnings Performance

Net earnings during 1977 totalled \$2,013,000 compared to \$1,857,000 earned in 1976. On a per share basis, this amounted to 81¢ — an increase of 21% over the 67¢ earned last year. This brought the Company's five year annual growth rate to 25%.

Total income for the year as a whole rose by \$6,007,000 to \$64,591,000, compared to \$58,584,000 in 1976. The more modest rise in total income this past year, compared to 1976, is directly attributable to a flattening out of revenues from the sale of properties. This is a result of de-emphasizing our real estate development business. The following table shows a strong underlying upward trend in total income, excluding income from the sale of properties.

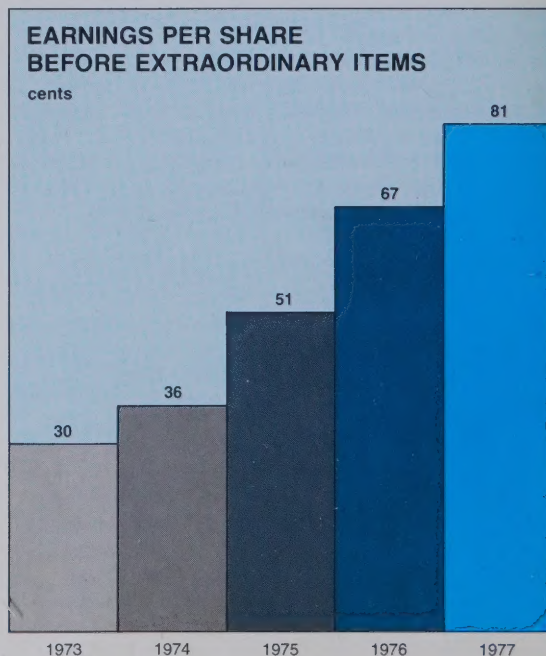
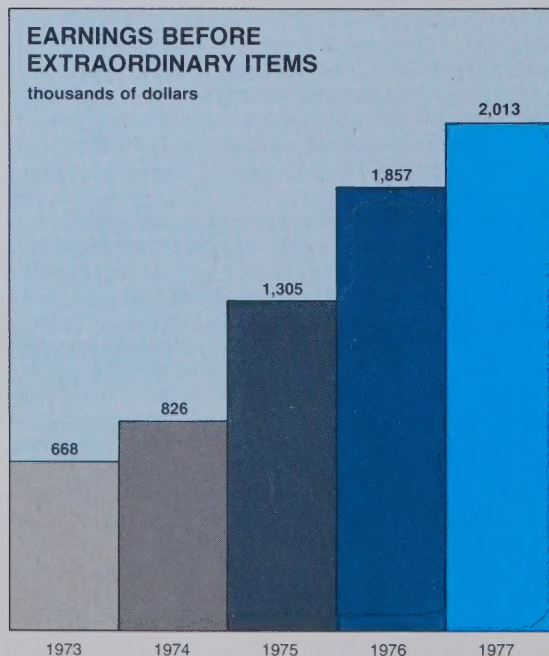
#### Total Income Excluding Income From Sale of Properties (thousands)

	1977	1976	1975	1974	1973
Interest Income	\$43,514	\$37,786	\$29,007	\$20,197	\$10,659
Income for All Other Sources	4,008	3,220	2,853	1,935	1,535
Total Income	<u>\$47,522</u>	<u>\$41,006</u>	<u>\$31,860</u>	<u>\$22,132</u>	<u>\$12,194</u>

This year's improved earnings resulted from increasing volumes of business in our lending operations, widening interest rate spreads and a substantial rise in dividend income from preferred shares which yield attractive after-tax returns. The Company achieved wider spreads because of a significant drop in the cost of demand funds, despite the fact that the yield on new mortgage loans versus the cost of term deposits narrowed. The table below is a quarterly summary of our net earnings for the past two years:

#### Net Earnings by Quarter

	Amount		Per Share	
	1977	1976	1977	1976
First Quarter	\$ 494,000	\$ 450,000	19¢	15¢
Second Quarter	471,000	405,000	19¢	14¢
Third Quarter	558,000	481,000	22¢	18¢
Fourth Quarter	490,000	521,000	21¢	20¢
	<u>\$2,013,000</u>	<u>\$1,857,000</u>	<u>81¢</u>	<u>67¢</u>





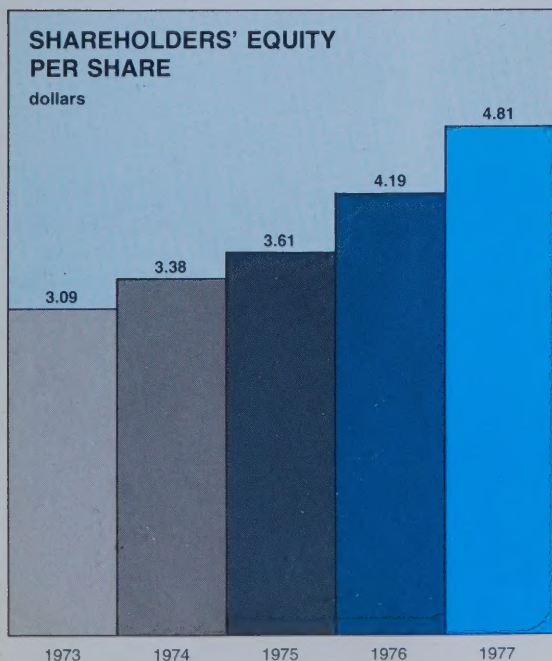
## Return on Shareholders' Equity

Retained earnings in 1976 increased by 35% while total shareholders' equity showed a more modest gain of 10% due to a \$582,000 decrease which resulted when a subsidiary purchased 96,965 shares of its own capital stock. This transaction along with the increase in retained earnings brought total shareholders' equity up to \$11,639,000 or \$4.81 per share compared to \$4.19 in 1976 for a healthy 15% gain. The following table compares return on shareholders' equity for each of the past five years.

### Return on Shareholders' Equity

(thousands)

	1977	1976	1975	1974	1973
Average Shareholders' Equity	\$11,324	\$10,669	\$9,148	\$7,559	\$6,540
Earnings before Extraordinary Items	2,013	1,857	1,305	826	668
Return on Shareholders' Equity	17.8%	17.4%	14.3%	10.9%	10.2%



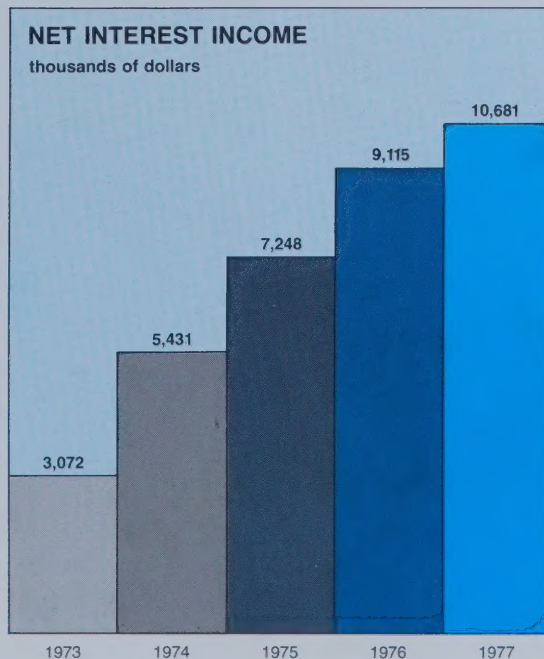
## Net Interest Income

Net interest income continued to expand, increasing \$1,566,000 or 17% over 1976. This brings the five year growth rate to 28% compounded annually. The accompanying table shows the breakdown of interest income and interest expense.

### Net Interest Income (thousands)

	1977	1976
Interest Income Derived From:		
Mortgage Loans	\$36,136	\$31,606
Securities	7,378	6,180
Factoring	399	525
	<u>\$43,913</u>	<u>\$38,311</u>
Less: Interest Expense On:		
Guaranteed Accounts	\$32,275	\$27,898
Bank Indebtedness	771	1,111
Notes & Debentures	186	187
	<u>\$33,232</u>	<u>\$29,196</u>
Net Interest Income	<u>\$10,681</u>	<u>\$ 9,115</u>

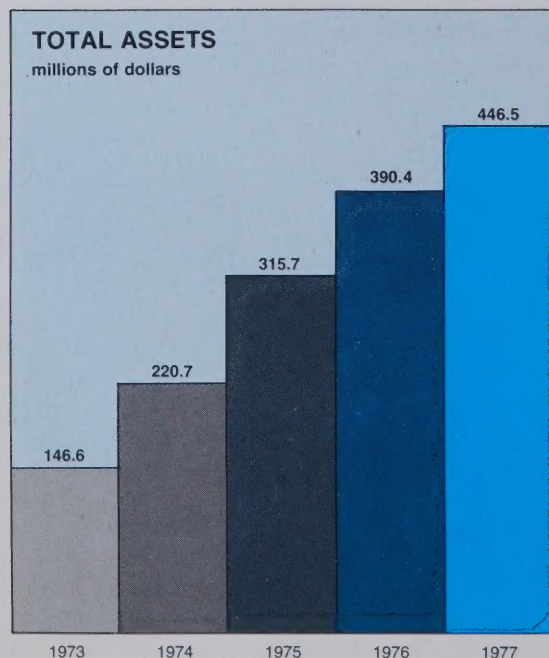
NOTE: Excludes interest expense on real estate development and includes dividend income.



## Other Income and Expenses

Other income consists of such items as income from sale of properties, rental income, factoring commission, property management income, gain on the sale of securities and various other forms of fee income. The most significant source of other income came from the sale of properties which amounted to \$17,069,000 versus \$17,578,000 in 1976. The balance from all other sources amounted to \$4,008,000 — an increase of \$788,000 over the previous year. The major part of this latter gain came from increased rents and gain on the sale of securities.

Other expenses were up significantly, again due to our property development program. Cost of properties sold amounted to \$18,036,000 compared to \$17,710,000 in 1976. Various other expenses such as personnel, premises and administrative and general expenses, including reserves, were up \$3,132,000 over 1976 levels.



## Total Assets

Total assets grew from \$390 million at the beginning of the year to \$446 million by December 31st. This growth was largely attributable to an increase of \$51 million in our mortgage portfolio and \$13 million in our marketable securities portfolio. The expansion in assets was financed principally through increased deposits which now total \$400 million, up \$62 million year over year. This gain included a \$23 million increase in savings deposits and demand registered retirement savings plans and a \$39 million increase in guaranteed investment certificates, term bonds and term R.R.S.P.'s. The following table illustrates the growth in the guaranteed account.

	Total Deposits (thousands)				
	1977	1976	1975	1974	1973
Demand Deposits	130,253	107,040	68,466	37,916	13,020
Term Deposits	269,523	230,404	194,004	147,362	108,159
Total Deposits	399,776	337,444	262,470	185,278	121,179

Commerce Capital executives (left to right) T. L. Charne, H. Kramer, J. W. Leech, J. B. Whitely, C. J. Cann, E. D. Bateman and L. R. Lunn.



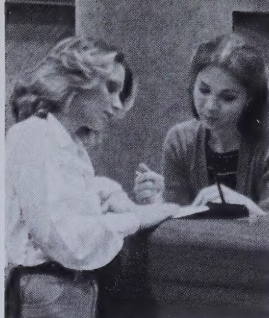
# Review of Operations



THE ROYAL BANK OF CANADA BUILDING

SERVICE DE LA BANQUE ROYALE DU CANADA





## Money Services

In 1977 Commerce Capital people met the savings and investment needs of over 80,000 Canadians, by offering a wide range of deposit and investment options through our twelve branches. To assist customers in choosing the right savings vehicles we developed a new series of information pamphlets and brochures that offer a wide variety of ideas on personal money management. This marketing approach was well received by the public with the result that our guaranteed account increased by \$63 million, or 19% over 1976. Areas of major growth were: Guaranteed Investment Certificates, which increased 17%, demand R.R.S.P.'s, up 27% and Series B bonds which increased 18%. By year end the composition of our guaranteed accounts was as follows:

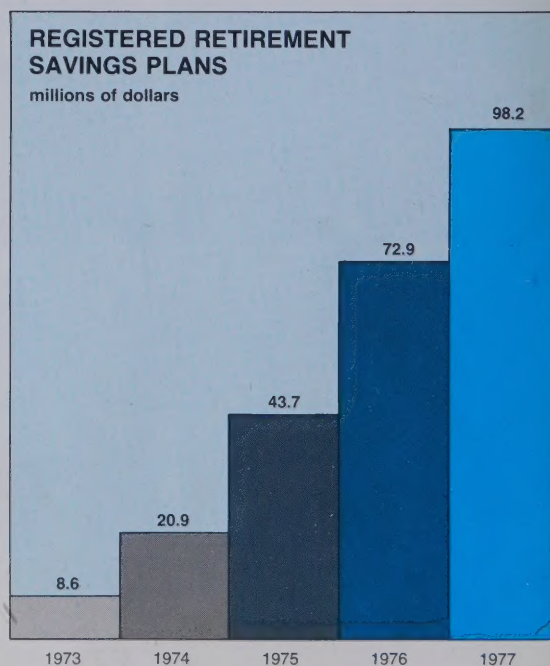
### Guaranteed Accounts Analysis

Type	Principal Amount (thousands)	%
Chequing	\$ 12,423	3.1
Savings	25,937	6.5
R.R.S.P. (Demand)	85,445	21.3
R.H.O.S.P.	6,447	1.6
Bank Loans	2,219	.4
G. I. C.'s Bonds, I.A.A.C.'s & Term R.R.S.P.		
Due: 1978	84,823	21.1
1979	23,869	5.9
1980	45,224	11.3
1981	53,416	13.3
1982	56,669	14.1
After	5,523	1.4
	<u>\$401,995</u>	<u>100%</u>

Commerce Capital has endeavoured to bring to the public a variety of highly competitive savings and investment instruments. Two areas in particular where the Company has been able to achieve excellent records were in the offering of a new mortgage fund and in the Registered Retirement Savings field. The Comcap Mortgage Fund, which grew from \$1 million to over \$9 million by year end, yielded investors a compounded return of 10.9%. The Commerce Capital R.R.S.P. package permits customers to choose from a full range of investment options under one plan to meet their individual needs. Independent studies show that Commerce Capital Plan "B" has been the industry's top performer among guaranteed

savings plans over the past five years. The accompanying graph illustrates the outstanding growth the Company has achieved in this field.

As Commerce Capital concentrates its growth in the trust and mortgage loan industry, the Company expects to expand customer services in such areas as mortgage banking, portfolio management, deferred profit sharing plans, corporate trust services and trustee for pension plans.





*Commerce Capital serves customers through branches across Canada*





## Mortgage Lending

Mortgage lending is the major activity of Commerce Capital, accounting for approximately 76% of consolidated gross income. Commerce Capital people have built this area of our business through fast and efficient service. To this end the Company's mortgage portfolio has grown by 25% annually over the past five years, reaching \$323 million by year end. In 1977 alone, our mortgage staff made over 3,000 loans resulting in gross placements of \$123 million for a net increase of \$51 million after allowing for repayments of \$72 million. This was accomplished in an environment of slackening demand for mortgage loans because of a weak economy in which housing starts dropped 10% from 1976 levels.

The Company has continued to emphasize the residential component of the mortgage business and by year end this sector accounted for 78% of the total portfolio. Emphasis on this area has allowed the Company to minimize risk associated with the lending of its funds. Further, a policy of minimizing risk through diversification according to size of loan, type of property, geographical location and term of loan remains a high priority. The accompanying table illustrates this diversification at year end.

	Number of Loans	Principal Amount (thousands)	%
<u>Size of Mortgage Loans</u>			
Up to \$ 25,000	2,941	\$ 45,543	14.1
\$ 25,000-\$ 50,000	3,505	123,930	38.4
\$ 50,000-\$100,000	919	60,270	18.7
\$100,000-\$250,000	261	36,055	11.2
\$250,000 and over	99	57,000	17.6
	<u>7,725</u>	<u>\$322,798</u>	<u>100.0</u>

### Property Type

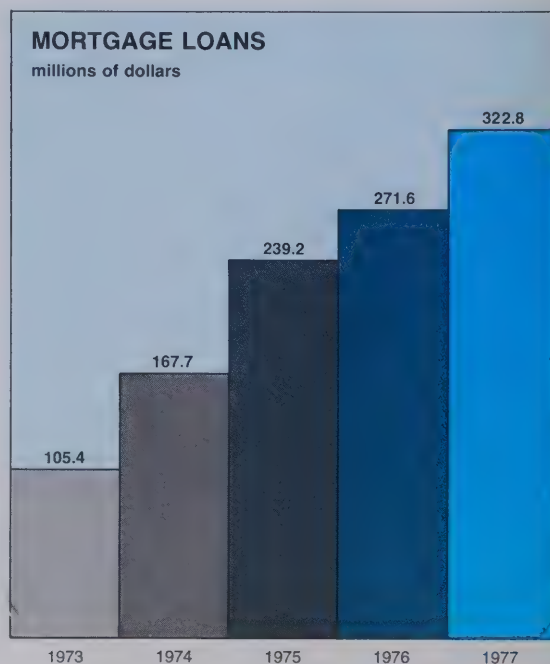
	Number of Loans	Principal Amount (thousands)	%
House loans	5,611	\$170,884	52.9
Other residential	1,511	82,239	25.5
Commercial and Industrial	603	69,675	21.6
	<u>7,725</u>	<u>\$322,798</u>	<u>100.0</u>

### Geographical Breakdown

	Number of Loans	Principal Amount (thousands)	%
British Columbia	1,942	\$ 85,000	26.3
Prairie Provinces	2,847	125,165	38.9
Ontario and Quebec	2,915	108,415	33.6
Other	21	4,218	1.2
	<u>7,725</u>	<u>\$322,798</u>	<u>100.0</u>

<u>Maturity Schedule</u>	Principal Amount (thousands)	%
1978	\$ 93,896	29.1
1979	61,431	19.0
1980	25,227	7.8
1981	41,878	13.0
1982	77,800	24.1
After	22,566	7.0
	<u>\$322,798</u>	<u>100.0</u>

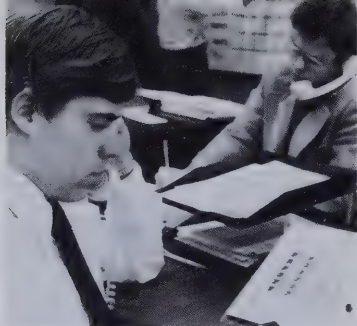
Our mortgage banking activities continue to expand, with a total of \$11 million in mortgage loans being placed with pension funds and other clients in 1977. Total assets under administration in this area now amount to \$31 million. Also, the Comcap Mortgage Fund, which is sold through our branch system, has met with excellent customer reception and by year end had \$9 million under administration. The success of this Fund can be attributed to the fact that it enables an investor with a limited amount of capital to participate in the Canadian mortgage market.





*Commerce Capital provides prompt and efficient mortgage serv*





## Marketable Securities

Canada's economic recovery continued to falter in 1977 along with most industrialized countries except the U.S.A. Real gross national product grew at 2.6% reflecting weakness in nearly all sectors of the economy including consumer spending, business investment and housing starts.

Despite this slow growth, which caused unemployment to reach post-war highs, inflation rates started to climb due principally to escalating food prices and the short-term negative effect of a sharp drop in value of the Canadian dollar. This disappointing economic environment in Canada contributed to poor common equity markets but provided a period of stable interest rates. In this environment, Commerce Capital's Investment Department was able to make improvements in the structure of the Company's fixed income portfolio as well as take advantage of an improving market in preferred shares.

Total consolidated investments increased 25.6% during the year to \$88.0 million, in line with the expansion of the Company's guaranteed account. The table below provides a breakdown of the type of securities held by Commerce Capital. Of note is the highly liquid nature of the Company's investments which are concentrated in government obligations, short-term paper and cash.

**Investment Portfolio**  
(thousands)

	At Cost	
	1977	1976
Bonds — Canada	\$ 2,367	\$ 4,985
— Provincial	28,749	25,430
— Corporate	8,761	8,484
Stocks — Preferred	16,187	7,401
— Common	3,345	1,102
Short-term Paper and Cash	26,592	21,651
Mortgage Fund	2,000	1,000
	<u>\$88,001</u>	<u>\$70,053</u>

The Company took advantage of a relatively flat yield curve, in existence through much of the year, to substantially shorten the term to maturity of its fixed income securities. Through active trading of issues previously owned and the selective commitment of new funds to the mid-term area of the market, the

average term of the portfolio decreased 4.7 years to 8.9 years, from 13.6 years on December 31, 1976. This reduction was accomplished with basically no give-up in yield, and was an important step toward a better matching of the average term of the Company's assets with its liabilities.

Total holdings of preferred shares increased during the year to \$16.2 million. Preferred shares provided attractive rates of return compared to other fixed income securities because of their tax-free status in the hands of corporations. These investments contributed \$1.3 million in tax-free income to the Company in 1977. Approximately one-half of the preferred share investments are held in the guaranteed account and have retraction privileges before 1982, ensuring their term to maturity matches that of our liabilities.

Canadian equity markets had another year of lack-lustre performance and the Company successfully reduced its holdings in this area during the first quarter by \$673,000 at prices in excess of original cost. However, this poor stock market performance provided opportunities later in the year for the Company to acquire shares of senior utilities with attractive dividend rates.

The Company continued to be active in the Canadian money markets during the year although average balances outstanding declined to \$21 million from \$32 million in 1976 as sharply lower rates made this market sector relatively less attractive.



## Auditors' Report

To the Shareholders of  
Commerce Capital Corporation Limited

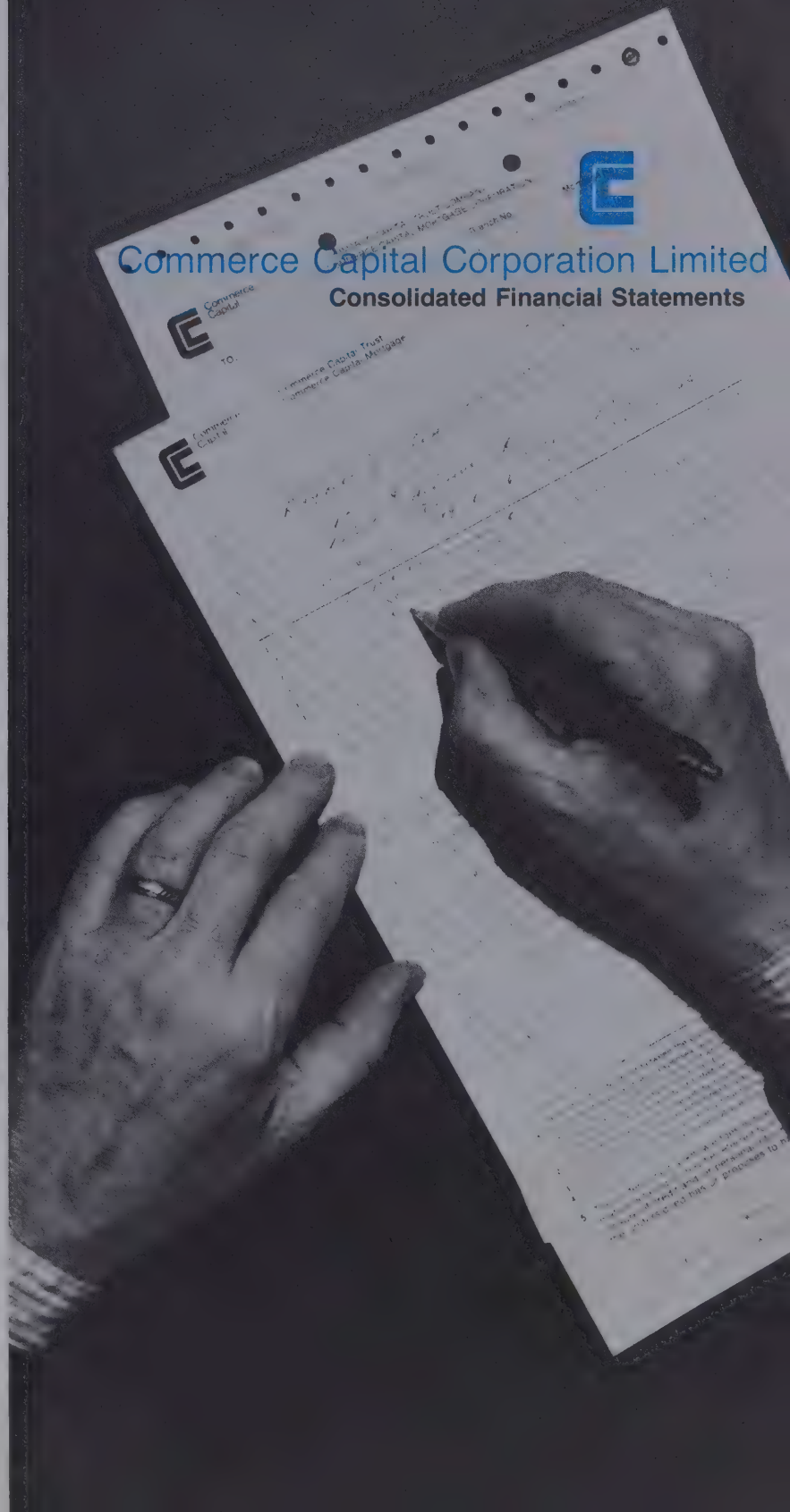
We have examined the consolidated balance sheet of Commerce Capital Corporation Limited as at December 31, 1977 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Thorne Ridwell & Co.*

Chartered Accountants

Toronto, Canada  
March 1, 1978



## Commerce Capital Corporation Limited

### Consolidated Balance Sheet

as at December 31, 1977

Assets	1977	1976
Cash and deposit receipts	\$ 26,592,000	\$ 21,651,000
Marketable securities (quoted market value \$60,669,000; 1976 — \$47,362,000)	61,409,000	48,402,000
Mortgages (note 2)	322,798,000	271,627,000
Accounts receivable and other assets (note 3)	4,283,000	7,727,000
Properties (note 4)	27,616,000	37,139,000
Premises and equipment at cost less accumulated depreciation of \$794,000 (1976 — \$646,000)	2,406,000	2,517,000
Goodwill (note 1(a))	1,366,000	1,365,000
	<b>\$446,470,000</b>	<b>\$390,428,000</b>

Approved by the Board:

J. B. Whitely, Director

R. H. E. Walker, Director



## Liabilities and Shareholders' Equity

	1977	1976
<b>Guaranteed accounts (note 5)</b>		
Deposits	\$135,675,000	\$107,040,000
Guaranteed investment certificates	208,835,000	183,374,000
Bonds	55,266,000	47,030,000
Bank loans	2,219,000	1,079,000
	401,995,000	338,523,000
<b>Other liabilities</b>		
Bank indebtedness — secured	111,000	6,929,000
Accounts payable and accrued liabilities	3,026,000	4,107,000
Income taxes	20,000	184,000
Income debentures (note 6)	9,000,000	5,000,000
Notes payable (note 7)	2,008,000	1,295,000
Mortgages payable (note 8)	8,682,000	12,452,000
	424,842,000	368,490,000
<b>Deferred income</b>	3,182,000	4,560,000
<b>Deferred income taxes</b>	2,717,000	2,661,000
<b>Minority interest</b>		
Preferred shares	3,000,000	3,100,000
Common shares and retained earnings	1,090,000	1,061,000
	4,090,000	4,161,000
<b>Shareholders' equity</b>		
Capital stock (note 9)		
Issued —		
2,916,870 common shares	7,377,000	7,377,000
Retained earnings	6,361,000	4,696,000
	13,738,000	12,073,000
Less: 496,965 (1976 — 400,000) common shares held by a subsidiary company — at cost	(2,099,000)	(1,517,000)
	11,639,000	10,556,000
	\$446,470,000	\$390,428,000

## Commerce Capital Corporation Limited

### Consolidated Statement of Earnings

Year ended December 31, 1977

	1977	1976
<b>Income</b>		
Mortgages	\$36,136,000	\$31,606,000
Sale of properties	17,069,000	17,578,000
Marketable securities		
Dividends	1,333,000	480,000
Other	6,045,000	5,700,000
Other sources	4,008,000	3,220,000
	<b>64,591,000</b>	<b>58,584,000</b>
<b>Expenses</b>		
Interest	34,409,000	30,134,000
Cost of properties	18,036,000	17,710,000
Personnel	3,674,000	2,819,000
Premises	791,000	579,000
Other administrative and general expenses	4,820,000	2,755,000
	<b>61,730,000</b>	<b>53,997,000</b>
<b>Earnings before income taxes and minority interest</b>	<b>2,861,000</b>	<b>4,587,000</b>
<b>Income taxes (note 10)</b>		
Current	285,000	803,000
Deferred	56,000	1,349,000
	<b>341,000</b>	<b>2,152,000</b>
	<b>2,520,000</b>	<b>2,435,000</b>
<b>Minority interest</b>	<b>507,000</b>	<b>578,000</b>
<b>Net earnings</b>	<b>\$ 2,013,000</b>	<b>\$ 1,857,000</b>
<b>Earnings per share (note 11)</b>	<b>\$0.81</b>	<b>\$0.67</b>

## Consolidated Statement of Retained Earnings

Year ended December 31, 1977

<b>Balance at beginning of year</b>	<b>\$4,696,000</b>	<b>\$3,165,000</b>
<b>Net earnings</b>	<b>2,013,000</b>	<b>1,857,000</b>
	<b>6,709,000</b>	<b>5,022,000</b>
<b>Dividends</b>	<b>348,000</b>	<b>326,000</b>
<b>Balance at end of year</b>	<b>\$6,361,000</b>	<b>\$4,696,000</b>



# Notes to Consolidated Financial Statements

Year ended December 31, 1977

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations from their respective dates of acquisition or incorporation.

The excess of the cost of shares over the company's interest in the identifiable net assets of subsidiary companies acquired is recorded as goodwill. An amount of \$893,000 pertaining to subsidiaries acquired prior to March 31, 1974 is being carried without amortization. For acquisitions subsequent to that date, an excess amounting to \$499,000 is being amortized over 40 years from the respective dates of acquisition.

### (b) Marketable securities

Marketable securities consist of government and corporate bonds, recorded at amortized cost plus accrued interest, and common and preferred shares, recorded at cost plus accrued dividends.

### (c) Mortgages

Mortgages are stated at their outstanding principal amounts plus accrued interest, less property tax prepayments and appropriate provisions for estimated losses.

In connection with mortgage operations, mortgages are issued at a discount or a service fee is charged. Both of these are deferred and taken into interest income over the term of each mortgage.

### (d) Properties

All costs and expenses which are directly related to real estate development activities are capitalized until substantial rental occupancy is achieved. Thereafter, the cost of the developed properties, exclusive of land costs, is depreciated on a 5%, thirty-year sinking fund basis.

Properties held for sale are recorded at the lower of cost and estimated net realizable value.

### (e) Premises and equipment

Premises and equipment are stated at depreciated cost. In general, depreciation is being provided using the following methods and rates:

Buildings	— straight line over 20 years
Equipment	— straight line over 10 years
Leasehold improvements	— straight line over 5 years

## 2. MORTGAGES

Included therein is an amount of \$3,049,000 (1976 — \$3,948,000) representing beneficial ownership of interests in certain registered mortgages, which interests are held in trust by a director of a subsidiary company who is also a director of Commerce Capital Corporation Limited.

## 3. ACCOUNTS RECEIVABLE

Included therein is an amount of \$1,347,000 (1976 — \$4,470,000) representing accounts receivable purchased in connection with factoring operations and a note receivable of \$188,000 from a director, due in 1980, arising from a guarantee of mortgages acquired.

## Commerce Capital Corporation Limited

### Notes to Consolidated Financial Statements (continued)

#### 4. PROPERTIES

	1977	1976
Developed properties	\$17,650,000	\$13,164,000
Less: accumulated depreciation	<u>482,000</u>	<u>279,000</u>
	17,168,000	12,885,000
Properties under development	3,293,000	9,524,000
Properties held for sale	<u>7,155,000</u>	<u>14,730,000</u>
	<u>\$27,616,000</u>	<u>\$37,139,000</u>

#### 5. GUARANTEED ACCOUNTS

The guaranteed accounts pertain to regulated trust and loan operations and are secured by the following segregated assets:

	1977	1976
Cash and deposit receipts	\$ 20,960,000	\$ 11,562,000
Marketable securities	47,570,000	39,877,000
Mortgages	315,503,000	263,988,000
Properties	<u>17,962,000</u>	<u>23,096,000</u>
	<u>\$401,995,000</u>	<u>\$338,523,000</u>

#### 6. INCOME DEBENTURES

The income debentures bear interest at a rate which is tied to the prime lending rate of the company's bankers and mature as follows: \$5,000,000 — December 31, 1978; \$4,000,000 — January 31, 1980.

#### 7. NOTES PAYABLE

\$1,664,000 — 10<sup>1</sup>/<sub>2</sub>% subordinated notes repayable in annual instalments of \$168,000 with a final payment of \$992,000 in 1982, for which certain marketable securities, maturing in 1982, are being held to provide funds for repayment.

\$150,000 — 12% notes, maturing in 1984, due primarily to minority shareholders of a subsidiary company, unsecured and subordinated to the bank indebtedness of the subsidiary company.

\$194,000 — non-interest-bearing note payable in 1978.

#### 8. MORTGAGES PAYABLE

	1977	1976
Mortgages secured by developed properties, bearing interest ranging from 7 <sup>1</sup> / <sub>2</sub> % to 13%, maturing from 1981 to 1997	\$8,614,000	\$12,151,000
Other	<u>68,000</u>	<u>301,000</u>
	<u>\$8,682,000</u>	<u>\$12,452,000</u>

Minimum annual principal payments for the next five years are: 1978 — \$65,000; 1979 — \$71,000; 1980 — \$77,000; 1981 — \$249,000 and 1982 — \$91,000.

#### 9. CAPITAL STOCK

Pursuant to a Certificate of Continuance dated May 11, 1977, received upon continuation in accordance with the provisions of section 261 of the Canada Business Corporations Act, references relating to the maximum number of shares the company is authorized to issue have been deleted.

In December, 96,965 of the outstanding common shares of the Company were acquired for a total cash consideration of \$582,000.



#### 10. INCOME TAXES

The tax allocation method of providing for income taxes is being used. Under this method, income taxes in the consolidated statement of earnings have been calculated on the basis of reported earnings rather than on earnings currently taxable.

The provision for income taxes in 1977 reflects the fact that 1977 earnings include capital gains, which are taxed at a reduced rate, and substantially greater amounts of non-taxable dividends than were included in earnings in the previous year.

#### 11. EARNINGS PER SHARE

Earnings per share have been calculated based on the weighted average number of shares outstanding in 1977 and 1976 of 2,493,758 and 2,760,158 respectively.

#### 12. COMMITMENTS

The aggregate minimum rentals payable under leases, exclusive of property taxes, insurance and other occupancy and maintenance charges for the five years ended December 31, 1982 are approximately \$2,098,000.

During the year certain premises were sold for \$1,300,000 and simultaneously leased for an initial term of 20 years with an option to renew the lease for two additional five year periods. The excess of the selling price over the depreciated value of the premises was taken into income as part of real estate operations. Minimum annual payments in the first five years of \$130,000 have been included in the aggregate minimum rentals payable above.

#### 13. CONTINGENT LIABILITIES

- (a) At December 31, 1977, in connection with factoring operations, the collection of accounts receivable of approximately \$523,000 in addition to those reflected on the consolidated balance sheet had been guaranteed.
- (b) At December 31, 1977, in connection with the sale of certain developed property by a subsidiary company, there was a contingent liability, as a co-guarantor of a mortgage assumed by the purchasers of the property, for a maximum of \$6,192,000, which is offset by an indemnification from the purchasers for any loss incurred.

#### 14. ANTI-INFLATION RESTRICTIONS

The company is subject to dividend restrictions under the provisions of the Anti-Inflation Act (Canada). Under these restrictions the maximum amount of dividends which may be paid during the year ending October 13, 1978 is \$464,000.

#### 15. STATUTORY INFORMATION

	<u>1977</u>	<u>1976</u>
Depreciation charged to operations	\$543,000	\$345,000

#### 16. COMPARATIVE FIGURES

Certain 1976 items have been reclassified to conform with the 1977 presentation.

## Commerce Capital Corporation Limited

### Five-Year Financial Summary

	1977	1976	1975	1974	1973
<b>Year-End Position</b>					
	(thousands except per share figures)				
<b>Assets</b>					
Cash and deposit receipts	\$ 26,592	\$ 21,651	\$ 13,892	\$ 5,952	\$ 2,167
Securities	61,409	48,402	37,505	28,046	29,483
Mortgages	322,798	271,627	239,204	167,673	105,412
Accounts receivable factored	1,347	4,470	5,935	3,282	1,828
Properties	27,616	37,139	13,391	9,643	4,099
Other	6,708	7,139	5,810	6,112	3,605
	<u>\$446,470</u>	<u>\$390,428</u>	<u>\$315,737</u>	<u>\$220,708</u>	<u>\$146,594</u>
<b>Guaranteed accounts</b>					
Deposits	\$135,675	\$107,040	\$ 68,466	\$ 37,916	\$ 13,020
Guaranteed investment certificates	208,835	183,374	160,616	122,719	92,740
Bonds	55,266	47,030	33,388	24,643	15,419
Bank loans	2,219	1,079	2,707	1,321	1,444
	<u>\$401,995</u>	<u>\$338,523</u>	<u>\$265,177</u>	<u>\$186,599</u>	<u>\$122,623</u>
<b>Other liabilities</b>	<u>\$ 26,029</u>	<u>\$ 34,527</u>	<u>\$ 34,430</u>	<u>\$ 22,145</u>	<u>\$ 13,929</u>
<b>Deferred income taxes</b>	<u>\$ 2,717</u>	<u>\$ 2,661</u>	<u>\$ 1,311</u>	<u>\$ 853</u>	<u>\$ 489</u>
<b>Minority interest</b>	<u>\$ 4,090</u>	<u>\$ 4,161</u>	<u>\$ 4,277</u>	<u>\$ 3,048</u>	<u>\$ 2,508</u>
<b>Shareholders' equity</b>	<u>\$ 11,639</u>	<u>\$ 10,556</u>	<u>\$ 10,542</u>	<u>\$ 8,063</u>	<u>\$ 7,045</u>
Per share	<u>\$ 4.81</u>	<u>\$ 4.19</u>	<u>\$ 3.61</u>	<u>\$ 3.38</u>	<u>\$ 3.09</u>
<b>Results for Year</b>					
	(thousands except per share figures)				
<b>Income</b>					
Interest	\$ 42,046	\$ 37,733	\$ 29,007	\$ 20,197	\$ 10,659
Other	22,545	20,851	2,853	1,935	1,535
	<u>\$ 64,591</u>	<u>\$ 58,584</u>	<u>\$ 31,860</u>	<u>\$ 22,132</u>	<u>\$ 12,194</u>
<b>Expenses</b>					
Interest	\$ 34,409	\$ 30,134	\$ 22,468	\$ 14,766	\$ 7,587
Other	27,321	23,863	5,863	4,798	2,753
	<u>\$ 61,730</u>	<u>\$ 53,997</u>	<u>\$ 28,331</u>	<u>\$ 19,564</u>	<u>\$ 10,340</u>
<b>Earnings before extraordinary items</b>	<u>\$ 2,013</u>	<u>\$ 1,857</u>	<u>\$ 1,305</u>	<u>\$ 826</u>	<u>\$ 668</u>
Per share	81¢	67¢	51¢	36¢	30¢
<b>Net earnings</b>	<u>\$ 2,013</u>	<u>\$ 1,857</u>	<u>\$ 1,305</u>	<u>\$ 826</u>	<u>\$ 667</u>
Per share	81¢	67¢	51¢	36¢	30¢
<b>Shareholders' Statistics</b>					
<b>Common shares outstanding</b>					
Weighted average	2,493,758	2,760,158	2,539,336	2,314,843	2,258,061
At year-end	2,419,905	2,516,870	2,916,870	2,386,870	2,276,870





## Commerce Capital Trust Company Consolidated Financial Statements

### Auditors' Report

To the Shareholders of  
Commerce Capital Trust Company

We have examined the consolidated balance sheet of Commerce Capital Trust Company as at December 31, 1977 and the consolidated statements of earnings, retained earnings and general reserve for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances including verification of cash, bank balances and securities of the company. All our requirements as auditors have been complied with.

After due consideration we have formed an independent opinion of the position of the company as at December 31, 1977 and we report that in our opinion and according to the best of our information and the explanations given to us these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We report that the financial statements are in agreement with the books of the company and that all transactions that have come within our notice have, in our opinion, been within the powers of the company.

*Thorne Kinsell & Co.*

Chartered Accountants

Calgary, Canada  
March 1, 1978

# Commerce Capital Trust Company

## Consolidated Balance Sheet

as at December 31, 1977

Assets	1977	1976
Cash and deposit receipts	\$ 23,761,000	\$ 18,773,000
Marketable securities (quoted market value \$60,230,000; 1976 — \$47,017,000)	60,893,000	47,845,000
Mortgages	260,323,000	219,094,000
Accounts receivable and other assets	1,804,000	2,414,000
Properties (note 2)	27,647,000	37,170,000
Premises and equipment, at cost less accumulated depreciation of \$683,000 (1976 — \$570,000)	2,107,000	2,153,000
	<b>\$376,535,000</b>	<b>\$327,449,000</b>
<b>Liabilities and Shareholders' Equity</b>		
Guaranteed account (note 3)		
Deposits	\$135,675,000	\$107,040,000
Guaranteed investment certificates	208,835,000	183,374,000
	<b>344,510,000</b>	<b>290,414,000</b>
Other liabilities		
Bank indebtedness — secured	—	600,000
Accounts payable and accrued liabilities	2,387,000	2,905,000
Mortgages payable (note 4)	8,614,000	12,383,000
Subordinated Notes (note 5)	1,664,000	1,832,000
	<b>12,665,000</b>	<b>17,720,000</b>
Deferred income	2,942,000	4,230,000
Deferred income taxes	2,198,000	2,222,000
Minority interest in subsidiary company	—	94,000
Shareholders' Equity		
Capital stock (note 6)		
Authorized —		
1,000,000 preferred shares at the par value of \$10 each		
2,000,000 common shares at the par value of \$1 each		
Issued —		
300,000 10 <sup>3</sup> / <sub>4</sub> % cumulative, redeemable preferred shares, Series A	3,000,000	3,000,000
1,361,478 common shares	1,361,000	1,361,000
Contributed surplus	2,091,000	2,091,000
General reserve	5,500,000	4,750,000
Retained earnings	2,268,000	1,567,000
	<b>14,220,000</b>	<b>12,769,000</b>
	<b>\$376,535,000</b>	<b>\$327,449,000</b>

Approved by the Board:  
J. B. Whitely, Director  
R. B. Love, Director



# Consolidated Statement of Earnings

Year ended December 31, 1977

	1977	1976
<b>Income</b>		
Mortgages	\$ 29,606,000	\$ 25,877,000
Sale of properties	17,069,000	17,578,000
Marketable securities		
Dividends	1,294,000	440,000
Other	5,740,000	5,487,000
Other sources	2,842,000	2,066,000
	<b>56,551,000</b>	<b>51,448,000</b>
<b>Expenses</b>		
Interest	28,368,000	25,026,000
Cost of properties	18,036,000	17,710,000
Personnel	2,939,000	2,172,000
Premises	663,000	481,000
Other administrative and general expenses	4,150,000	2,048,000
	<b>54,156,000</b>	<b>47,437,000</b>
<b>Earnings before income taxes</b>	<b>2,395,000</b>	<b>4,011,000</b>
<b>Income taxes (note 7)</b>		
Current	(63,000)	419,000
Deferred	(24,000)	1,256,000
	<b>(87,000)</b>	<b>1,675,000</b>
<b>Net earnings</b>	<b>2,482,000</b>	<b>2,336,000</b>
Earnings applicable to preferred shares	323,000	323,000
<b>Net earnings applicable to common shares</b>	<b>\$ 2,159,000</b>	<b>\$ 2,013,000</b>
<b>Earnings per common share</b>	<b>\$1.59</b>	<b>\$1.48</b>

## Commerce Capital Trust Company

### Consolidated Statement of Retained Earnings

Year ended December 31, 1977

	1977	1976
Balance at beginning of year	\$ 1,567,000	\$ 632,000
Net earnings	2,482,000	2,336,000
	4,049,000	2,968,000
Transfer to general reserve	750,000	750,000
Dividends		
Common shares	708,000	328,000
Preferred shares	323,000	323,000
	1,781,000	1,401,000
Balance at end of year	\$ 2,268,000	\$ 1,567,000

## Consolidated Statement of General Reserve

Year ended December 31, 1977

Balance at beginning of year	\$ 4,750,000	\$ 4,000,000
Transfer from retained earnings	750,000	750,000
Balance at end of year	\$ 5,500,000	\$ 4,750,000

## Certificate

(Under the Trust Companies Act, 1967, Section 91 (3) )

We certify that the financial statements of Commerce Capital Trust Company and subsidiary companies are to the best of our knowledge and belief correct and show truly and clearly the financial condition of the companies' affairs.

J. B. Whitely, Chairman and President

J. W. Leech, Executive Vice-President



# Notes to Consolidated Financial Statements

Year ended December 31, 1977

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations from their respective dates of acquisition or incorporation.

During the year the company acquired the minority interest in one of its subsidiaries, Commerce Capital Properties Limited. The excess of the cost of the minority interest over the net book value of assets acquired was allocated to assets and is being amortized on the same basis as such assets.

### (b) Marketable securities

Marketable securities consist of government and corporate bonds, recorded at amortized cost plus accrued interest, and common and preferred shares, recorded at cost plus accrued dividends. No allowance has been made for the decline in market value below stated value as management is of the opinion that such decline does not represent a permanent diminution in value.

### (c) Mortgages

Mortgages are stated at outstanding principal plus accrued interest, less property tax prepayments and an allowance for loss. The company issues mortgages at a discount which is reflected in deferred income and taken into income over the term of each mortgage using the straight line method.

### (d) Properties

All costs and expenses which are directly related to real estate development activities are capitalized until substantial rental occupancy is achieved. Thereafter, the cost of the developed properties, exclusive of land costs, is depreciated on a 5%, thirty-year sinking fund basis.

Properties held for sale are recorded at the lower of cost and estimated net realizable value.

### (e) Premises and equipment

Premises and equipment are stated at depreciated cost. Depreciation is being provided using the following methods and rates:

Buildings	— straight line over 20 years
Equipment	— straight line over 10 years
Leasehold improvements	— straight line over 5 years

## 2. PROPERTIES

	1977	1976
Developed properties	\$17,681,000	\$13,195,000
Less: accumulated depreciation	482,000	279,000
	<u>17,199,000</u>	<u>12,916,000</u>
Properties under development	3,293,000	9,524,000
Properties held for sale	7,155,000	14,730,000
	<u>\$27,647,000</u>	<u>\$37,170,000</u>

Depreciation on properties in 1977 totalled \$239,000 (1976 — \$180,000).

## 3. GUARANTEED ACCOUNT

Deposits include savings and chequing accounts, registered retirement savings plans, registered home ownership savings plans and income averaging annuity contracts.

Assets segregated to secure the Guaranteed Account are as follows:

	1977	1976
Cash and deposit receipts	\$ 19,105,000	\$ 8,797,000
Mortgages	259,873,000	218,644,000
Marketable securities	47,570,000	39,877,000
Properties	17,962,000	23,096,000
	<u>\$344,510,000</u>	<u>\$290,414,000</u>

# Notes to Consolidated Financial Statements

Year ended December 31, 1977

## 4. MORTGAGES PAYABLE

	1977	1976
Mortgages secured by developed properties, bearing interest ranging from 7½% to 13%, maturing from 1981 to 1997	\$8,614,000	\$12,151,000
Other	—	232,000
	<u>\$8,614,000</u>	<u>\$12,383,000</u>

Minimum annual principal payments for the next five years are: 1978 — \$64,000; 1979 — \$70,000; 1980 — \$76,000; 1981 — \$248,000 and 1982 — \$90,000.

## 5. SUBORDINATED NOTES

The 10½% Series A Subordinated Notes are repayable in annual instalments of \$168,000 with a final payment of \$992,000 in 1982, for which certain marketable securities, maturing in 1982, are being held to provide funds for repayment.

## 6. CAPITAL STOCK

The 10¾% cumulative, redeemable preferred shares, Series A, are redeemable after July 31, 1980 at varying premiums to July 31, 1994 and thereafter at par.

The company is required, in successive twelve month periods commencing August 1, 1976, to purchase 15,000 Series A preferred shares, if available, in the open market at prices not exceeding their par value plus accrued and unpaid dividends. The company's maximum obligation at any one time is to acquire 45,000 shares.

## 7. INCOME TAXES

The tax allocation method of providing for income taxes is being followed. Under this method, income taxes have been calculated on the basis of reported earnings rather than on earnings currently taxable.

The provision for income taxes in 1977 reflects the fact that 1977 earnings include capital gains which are taxed at a reduced rate and substantially greater amounts of non-taxable dividends than were included in earnings in the previous year.

## 8. COMMITMENTS

The aggregate minimum rentals payable under leases, exclusive of property taxes, insurance and other occupancy and maintenance charges for the five years ended December 31, 1982 are approximately \$1,313,000.

During the year certain premises were sold for \$1,300,000 and simultaneously leased for an initial term of 20 years with an option to renew the lease for two additional five year periods. The excess of the selling price over the depreciated value of the premises was taken into income as part of real estate operations. Minimum annual payments in the first five years of \$130,000 have been included in the aggregate minimum rentals payable above.

## 9. CONTINGENT LIABILITIES

At December 31, 1977 the company is contingently liable to a maximum of \$6,192,000 as a co-guarantor of a mortgage in respect of property sold. The company has received an indemnification from the purchasers for any loss.

## 10. OTHER INFORMATION

- The aggregate direct remuneration paid by the company to directors and senior officers amounted to \$487,000 (1976 — \$432,000).
- Depreciation of Premises and Equipment in 1977 totalled \$269,000 (1976 — \$140,000).
- Certain 1976 items have been reclassified to conform with the 1977 presentation.





## Commerce Capital Mortgage Corporation Financial Statements

### Auditors' Report

To the Shareholders of  
Commerce Capital Mortgage  
Corporation

We have examined the balance sheet of Commerce Capital Mortgage Corporation as at December 31, 1977 and the statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Thorne Ridell & Co.*

Chartered Accountants

Toronto, Canada  
February 10, 1978

# Commerce Capital Mortgage Corporation

(Incorporated by Special Act of Parliament under the laws of Canada)

## Balance Sheet

as at December 31, 1977

Assets	1977	1976
Cash and deposit receipts	\$ 1,902,000	\$ 2,779,000
Marketable securities (quoted market value \$323,000; 1976 — \$416,000)	400,000	557,000
Mortgages	59,232,000	48,540,000
Equipment and leasehold improvements, at cost less accumulated depreciation of \$40,000 (1976 — \$35,000)	110,000	152,000
Unamortized financing expenses	453,000	535,000
	<b>\$62,097,000</b>	<b>\$52,563,000</b>

## Liabilities and Shareholders' Equity

Guaranteed account (note 2)		
Bank indebtedness, secured by series A and B bonds	\$ 2,219,000	\$ 1,102,000
Series B bonds (note 3)	54,888,000	46,723,000
Mortgages payable	379,000	284,000
	<b>57,486,000</b>	<b>48,109,000</b>
Other liabilities		
Accounts payable and accrued liabilities	70,000	115,000
Income taxes	56,000	211,000
	<b>126,000</b>	<b>326,000</b>
Deferred income	240,000	330,000
Deferred income taxes	515,000	435,000
Shareholders' equity		
Capital stock		
Authorized —		
803,200 shares, par value \$10 per share		
Issued —		
170,040 shares	1,700,000	1,700,000
General reserve	450,000	350,000
Retained earnings	1,580,000	1,313,000
	<b>3,730,000</b>	<b>3,363,000</b>
	<b>\$62,097,000</b>	<b>\$52,563,000</b>

We hereby certify that to the best of our knowledge and belief the foregoing balance sheet is correct and shows truly and clearly the financial condition of the company's affairs.

J. B. Whitely, Chairman and Chief Executive Officer

A. L. Beattie, Director

R. H. E. Walker, Director

## Statement of Earnings

Year ended December 31, 1977

	1977	1976
<b>Income</b>		
Mortgages	\$6,603,000	\$5,557,000
Marketable securities and deposit receipts	289,000	120,000
	6,892,000	5,677,000
<b>Expenses</b>		
Interest	5,314,000	4,135,000
Personnel	265,000	300,000
Premises (note 4)	46,000	52,000
Other administrative and general expenses	234,000	179,000
	5,859,000	4,666,000
<b>Earnings before income taxes</b>	<b>1,033,000</b>	<b>1,011,000</b>
<b>Income taxes</b>		
Current	399,000	370,000
Deferred	80,000	92,000
	479,000	462,000
<b>Net earnings</b>	<b>\$ 554,000</b>	<b>\$ 549,000</b>
<b>Earnings per share (note 5)</b>	<b>\$3.26</b>	<b>\$3.29</b>

## Statement of Retained Earnings

Year ended December 31, 1977

<b>Balance at beginning of year</b>	<b>\$1,313,000</b>	<b>\$1,034,000</b>
Net earnings	554,000	549,000
	1,867,000	1,583,000
Transfer to general reserve	100,000	100,000
Dividends	187,000	170,000
	287,000	270,000
<b>Balance at end of year</b>	<b>\$1,580,000</b>	<b>\$1,313,000</b>



# Commerce Capital Mortgage Corporation

## Notes to Financial Statements

Year ended December 31, 1977

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Marketable securities

Marketable securities consist of preferred shares which are stated at cost. No provision is made for the decline in the market value of these shares as all gains and losses are recorded upon sale.

#### (b) Mortgages

Mortgages are stated at their outstanding principal plus accrued interest less a provision for loss.

#### (c) Equipment and leasehold improvements

Equipment and leasehold improvements are stated at depreciated cost. Depreciation is being provided using the following methods and annual rates:

Equipment — 20% declining balance  
Leasehold improvements — straight line over the term of the lease (note 6)

#### (d) Unamortized financing expenses

Financing expenses are being amortized and included in interest expense on a monthly basis over the term of the bonds.

#### (e) Deferred income

Any fees received on mortgages issued are deferred and taken into income over the term of the mortgage on the sum of the years digits method, except for an amount equal to the estimated cost of establishing mortgage files which amount is included in revenue in the year the cost is incurred.

### 2. GUARANTEED ACCOUNT

Moneys borrowed for purposes of the two separate mortgage funds operated by the company are kept and accounted for separately and invested in assets segregated to secure these borrowings. The assets and corresponding liabilities are as follows:

Assets	1977	1976
A Fund		
Cash and deposit receipts	\$ 12,000	\$ 55,000
Mortgages	907,000	1,047,000
	<u>919,000</u>	<u>1,102,000</u>
B Fund		
Cash and deposit receipts	1,844,000	2,710,000
Mortgages	54,723,000	44,297,000
	<u>56,567,000</u>	<u>47,007,000</u>
	<u>\$57,486,000</u>	<u>\$48,109,000</u>

**Liabilities****A Fund**

Bank indebtedness secured by series A bonds

\$ 919,000\$ 1,102,000**B Fund**

Bank indebtedness secured by series B bonds

1,300,000

—

Series B bonds

54,888,000

46,723,000

Mortgages payable

379,000

284,000

56,567,00047,007,000\$57,486,000\$48,109,000**3. SERIES B BONDS, MORTGAGE FUND B**

Bonds mature as follows:

	1977	1976
1977	—	\$ 7,241,000
1978	\$16,863,000	11,899,000
1979	4,869,000	2,904,000
1980	9,872,000	9,153,000
1981	17,816,000	15,526,000
1982	5,468,000	—
	<u><u>\$54,888,000</u></u>	<u><u>\$46,723,000</u></u>

**4. DEPRECIATION**

Depreciation of equipment and leasehold improvements amounted to \$13,000 (\$10,000 in 1976).

**5. EARNINGS PER SHARE**

Earnings per share have been calculated based on the weighted average number of shares outstanding in 1977 and 1976 of 170,040 and 166,930 respectively.

**6. LEASE COMMITMENT**

The company operates in leased premises under the terms of a lease expiring on October 31, 1987 which provides for annual rental payments of \$157,000.

**7. COMPARATIVE FIGURES**

The 1976 comparative figures have been reclassified to conform with the 1977 presentation.

## Commerce Capital Trust Company

### Directors

R. A. N. Bonnycastle, Calgary,  
Chairman and President,  
Cavendish Investing Ltd.

T. L. Charne, Q.C., Winnipeg,  
Senior Vice-President,  
Commerce Capital Corporation Limited

D. P. Hays, Calgary,  
Partner,  
Macleod Dixon

B. F. Kelly, Montreal,  
President,  
Eastern Elevator Ltd.

R. B. Love, Q.C., Calgary,  
Partner,  
Macleod Dixon

J. B. Whitely, Toronto,  
President and Chief Executive Officer  
Commerce Capital Corporation Limited

### Officers

Chairman and President  
J. B. Whitely

Senior Vice-Presidents  
C. J. Cann, C.G.A. — Mortgages  
T. L. Charne, Q.C.  
J. W. Leech — Operations  
L. R. Lunn, C.F.A. — Funds Management  
and Corporate Development

Vice-Presidents  
O. J. Dizap — Mortgages  
G. R. Greer — Mortgages  
H. Kramer, C.A. — Finance  
R. B. Love, Q.C.

Secretaries  
E. D. Bateman, C.A.  
J. Medway

### Assistant Vice-Presidents

J. W. Beckerleg — Corporate Development  
D. T. McIntosh — Mortgage Administration

### Comptrollers

B. A. Johnson, C.A. — Budgets & Systems  
G. A. Hill, C.A. — Accounting Operations  
M. Clark, C.A. — Assistant Comptroller

T. A. Koster — Director Computer Services

### Department Managers

L. E. Burton,  
Personnel

A. C. Deruchie, C.A.  
Corporate Audit

F. G. Dungen  
Branch Operations

S. Giesbercht,  
Property Management

C. R. Sharp,  
Corporate and Personal Trust

R. D. Sommerville, C.F.A.  
Investments

W. E. Tanner  
Real Estate

### Managers

Calgary — R. D. Whitney  
209 - 8th Avenue S.W.  
Calgary, Alberta T2P 1B8

Edmonton — W. L. Miller,  
10420 Jasper Avenue  
Edmonton, Alberta T5J 1Z3

Grande Prairie — G. V. Neufeld,  
9933 Richmond Avenue  
Grande Prairie, Alberta T8V 0V1

Kamloops — I. Thorne,  
157 Victoria Street  
Kamloops, B.C. V2C 1Z4

Lethbridge — L. L. Davidson,  
309 -7th Street South  
Lethbridge, Alberta T1J 2G4

Medicine Hat — L. P. Godin,  
429 - 3rd Street S.W.  
Medicine Hat, Alberta T1A 0G8

Montreal — P. Hurtubise,  
1450 St. Catherine St. W.  
Montreal, Quebec H3G 1R3

Red Deer — J. R. Unsworth,  
4822 Gaetz Avenue  
Red Deer, Alberta T4N 4A3

Toronto — R. A. Mask,  
8 King St. East, Suite 300  
Toronto, Ontario M5C 1B5

Vancouver — A. L. Flemmer,  
564 Howe Street  
Vancouver, B.C. V6C 2C9

Victoria — R. G. Hopkinson,  
731 Fort Street  
Victoria, B.C. V8W 1G9

Winnipeg — E. J. Timmermann,  
349 Portage Avenue  
Winnipeg, Manitoba R3B 2C3

### Head Office

209 - 8th Avenue South West  
Calgary, Alberta T2P 1B8

## Commerce Capital Mortgage Corporation

### Directors

A. L. Beattie, Q.C., Toronto,  
Partner,  
Osler, Hoskin & Harcourt

T. L. Charne, Q.C., Winnipeg,  
Senior Vice-President,  
Commerce Capital Corporation Limited

M. Gaasenbeek, Toronto,  
Vice-President,  
Midland Doherty Limited

D. C. Hannaford, Toronto,  
Chairman,  
Mead & Co. Limited

G. W. F. McCain, Florenceville,  
President,  
McCain Foods Ltd.

J. A. McCleery, F.C.A., Toronto,  
President,  
J. A. McCleery Limited

C. Orenstein, Toronto,  
President,  
Consolidated Hotel Management Limited

R. H. E. Walker, Q.C., Montreal,  
Partner,  
Martineau, Walker, Allison,  
Beaulieu, MacKell & Clermont

J. B. Whitely, Toronto,  
President and Chief Executive Officer  
Commerce Capital Corporation Limited

### Officers

Chairman and President  
J. B. Whitely

Senior Vice-Presidents  
C. J. Cann, C.G.A. — Mortgages  
T. L. Charne, Q.C.  
J. W. Leech — Operations  
L. R. Lunn, C.F.A. — Funds Management  
and Corporate Development

### Vice-Presidents

O. J. Dizap — Mortgages  
G. R. Greer — Mortgages  
H. Kramer, C.A. — Finance

Secretary  
E. D. Bateman, C.A.

### Assistant Vice-Presidents

J. W. Beckerleg — Corporate Development  
D. T. McIntosh — Mortgage Administration

### Comptrollers

B. A. Johnson, C.A. — Budgets & Systems  
G. A. Hill, C.A. — Accounting Operations  
M. Clark — Assistant Comptroller

T. A. Koster — Director Computer Services

### Head Office

Suite 2200, Toronto Place,  
181 University Avenue  
Toronto, Ontario M5H 3M7



# Commerce Capital Corporation Limited

## Directors

J. Addison, Fredericton,  
President,  
James Addison and Associates Limited

† A. L. Beattie, Q.C., Toronto,  
Partner,  
Osler, Hoskin & Harcourt

† R. A. N. Bonnycastle, Calgary,  
Chairman and President,  
Cavendish Investing Ltd.

T. L. Charne, Q.C., Winnipeg,  
Senior Vice-President

M. Gaasenbeek, Toronto,  
Vice-President,  
Midland Doherty Limited

\* D. C. Hannaford, Toronto,  
Chairman,  
Mead & Co. Ltd.

† D. P. Hays, Calgary,  
Partner,  
Macleod Dixon

\* B. F. Kelly, Montreal,  
President,  
Eastern Elevator Ltd.

R. B. Love, Q.C., Calgary,  
Partner,  
Macleod Dixon

\* P. E. Martin, Montreal,  
President,  
Canada Steamship Lines (1975) Limited

G. W. F. McCain, Florenceville,  
President,  
McCain Foods Ltd.

† J. A. McCleery, F.C.A., Toronto,  
President,  
J. A. McCleery Limited

C. Orenstein, Toronto,  
President,  
Consolidated Hotel Management Limited

J. A. Timmins, Toronto,  
Vice-President, Marketing & Sales,  
The de Havilland Aircraft Company  
of Canada Ltd.

\* R. H. E. Walker, Q.C., Montreal,  
Partner,  
Martineau, Walker, Allison,  
Beaulieu, MacKell & Clermont

\* J. B. Whitely, Toronto,  
President and  
Chief Executive Officer

\*Member of the Executive Committee.

†Proposed for election at Annual  
General Meeting for Shareholders.

## Officers

President and Chief Executive Officer  
J. B. Whitely

### Senior Vice-Presidents

C. J. Cann, C.G.A. — Mortgages  
T. L. Charne, Q.C.  
J. W. Leech — Operations  
L. R. Lunn, C.F.A. — Funds Management  
and Corporate Development

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M. Clark, C.A. — Assistant Comptroller

T. A. Koster — Director Computer Services

## Executive Offices

Suite 2200, Toronto Place  
181 University Avenue  
Toronto, Ontario M5H 3M7

## Transfer Agent and Registrar

Canada Permanent Trust Company  
Montreal, Toronto, Winnipeg, Regina,  
Calgary and Vancouver

## Stock Listings

The Toronto Stock Exchange  
Montreal Stock Exchange  
The Alberta Stock Exchange

